A PLAN FOR CURTAILING EXCESSIVE AND UNAFFORDABLE LTCI PREMIUMS IN THE UNITED STATES

Long Term Care Insurance (LTCI) is a toxic product that was ill-conceived from the outset, based on wild speculation about the cost of benefits to come up with pricing models by insurance carriers that were approved by state regulators, always with an obscure caveat that rates could be increased during the life of a policy, subject to only one provision, that no individual could be singled out from others of the same gender and age at which the policy was purchased.

In legacy LTCI products, promotional materials always presented projections of benefits based on level premiums, notwithstanding the rate increase caveat included in the contract. (In evidence of this point, tables presented to myself and my wife follow). Prospective clients were encouraged to purchase the product at an early age to lock in a lower "fixed premium", and most who purchased these legacy products have now held them for 20 years or more.

There is wide variability in the historical escalation of premiums among the carriers and within the various carrier "books". Some policyholders went for many years with no premium increase, only to be suddenly hit with a large increase in the space of one to three years, potentially followed by additional increases so that their current premium is a large multiple of the original premium. Others were hit by increases earlier on and have lived through many subsequent increases that have compounded to premiums that are a large multiple of the original premium.

It is impossible to make a fair comparison of excess cost above what was supposed to be constant level premiums based solely on the current multiple of the original premium. Two policyholders who now have the same multiple of original premium can have very different accumulated excess cost, depending on the timing and frequency of their rate increases.

This plan is intended to level the playing field, while imposing a justifiable limit on the magnitude of rate increases that may be imposed on any individual policyholder. It does not call for capping premiums at the original quoted price, nor does it base a proposed cap rate on a uniform multiple of the original premium. Rather, it proposes a cap based on the accumulated premiums payed over the lifetime of a policy as compared to what the policyholder was told to expect at policy inception.

At whatever age a policy was purchased, the carrier had a reasonable expectation that some policyholders would die without ever receiving benefits, and that some would let their policies lapse. Those that let their policies lapse did so either by their own choice or were forced to do so because they could no longer afford the premiums. In either case, the result is that the remaining in-force policyholders are being unfairly burdened to make up for the premiums not being paid by those who have lapsed. This should never have happened. The original pricing models included assumptions about the lapse rate. If those assumptions were wrong, that is on the carrier who priced the product, not on the remaining in-force.

Consider the following data:

Data from the National Vital Statistics System
Life expectancy for the U.S. population in 2020 was 77.0 years, a decrease of 1.8 years from 2019. The age-adjusted death rate increased by 16.8% from 715.2 deaths per 100,000 standard population in 2019 to 835.4 in 2020.Dec 21, 2021

Or more recently from https://www.worldometers.info/demographics/life-expectancy/

United States	*Both 79.11*	*Women 81.65*	*Men 76.61*

While there is some difference, both sources reasonably agree. The reasonable expectation of the carrier in constructing their pricing model was or should have been that those policyholders who did not lapse but never qualified to receive benefits would be paying premiums for the rest of their lives at the rate they were quoted in the first place. In addition, there would be a pool of policyholders who paid premiums for many more years than the average before qualifying for benefits that would often cost less than the maximum benefit under their policies. Life expectancy is the average age of death of the population, which does vary some over time, but is in the United States currently about 82 for women and 77 for men (both numbers rounded up) So, for example, the carrier should have expected that a new purchaser at age 50 would **on average** make 32 annual payments for women or 27 for men.

Putting aside the legitimate argument that timing of premium increases is a factor, for simplicity recognize that one thing everyone has in common is that at some point, if they live long enough, they will have paid a total amount in premiums, including all the granted increases, equivalent to what they were on average expected to pay when they first started. For the example of age-50 purchasers, that amount would be 32 times the original premium for women and 27 times the original premium for men.

It is a very simple calculation for each policy book to determine when this level of total payments has been reached for every group of individuals of the same age who purchased their policies in the same year, and it is an objective threshold independent of how long it takes to reach that level, or the details of the timing and amounts of the individual rate increases. This milestone could be used as a hard limit on premiums levied against any individual. If one reached this milestone early on, it would be because their premiums were increased more rapidly than those who reach it later, and on average they would be paying their capped rate for a longer period of time. If one reached the milestone later, it could be, and probably is the case, that their multiple of the original premium is higher than those who reached it earlier, but they benefitted from lower premiums early on and on average will be paying the capped rate for a shorter time. In either case, the carrier benefits from having raised rates to a higher level early on and will receive far more money from the aged-up in-force than they originally expected.

It could be argued that once a person reaches the age of life expectancy, on average they will not live long enough to receive the maximum benefit of their policy and consequently should be getting gradual premium reductions as they grow older, but that is not included in the basic idea of this plan.

If the state is serious about limiting rate increases and/or subsidizing premiums with tax credits it could take on the responsibility of covering any premium that is in excess of the premium level at the time the life expectancy milestone described above was reached. If necessary, it could also modify this plan to benefit those of more modest income, and let the wealthy pay the premiums they can afford without state assistance. If done as a tax credit, it would be simple to apply the premium cap only to those individuals or couples whose income is below a reasonable threshold.

This plan does not attempt to undo the rate increases of the distant past, but it does include an essential component: establishing a limit beyond which premiums may not increase. It is the uncertainty about future increases that is forcing many policyholders now living on fixed income to abandon their policies and become burdens of the state should they need elder care that would have been funded by their LTCI policies. The proposed milestone of having paid accumulated premiums in the amount of the originally expected life-expectancy times original premium could be altered to some other reasonable milestone, but it is essential that premiums be capped based on accumulated premiums rather than simply a multiple of the original premium.

The following pages are true photocopies of the tables of expected benefits and premiums quoted by John Hancock agents (from Merrill Lynch) for myself and my wife leading us to believe we would be paying fixed premiums for as long as we maintained our LTCI policies. The red outlines were added for emphasis and our names were deleted by me.

JOHN HANCOCK LIFE INSURANCE COMPANY, BOSTON, MA, 02117
LONG TERM CARE INSURANCE 10/11/2000

Tax Qualified Advantage Gold - Inflation Comparison
(Select)

Client Name:
Age: 54
Risk Class: Standard Select
Waiting Period: 100 Days
Inflation Option: 5% Compound (Premium does not increase)
Annual Premium: $1,818

Nursing Home Care Benefit Limit - $180 a day

Home Health Care Benefit Limit - 80% Of Nursing Home Care Benefit

Age	Nursing Home Maximum Daily Benefit	Policy Limit	Premium
54	$180	$394,200	$1,818
57	$208	$455,520	$1,818
60	$240	$525,600	$1,818
63	$278	$608,820	$1,818
66	$322	$705,180	$1,818
69	$373	$816,870	$1,818
72	$433	$948,270	$1,818
75	$502	$1,099,380	$1,818
78	$581	$1,272,390	$1,818
81	$673	$1,473,870	$1,818
84	$779	$1,706,010	$1,818
87	$902	$1,975,380	$1,818
90	$1,044	$2,286,360	$1,818
93	$1,209	$2,647,710	$1,818
96	$1,399	$3,063,810	$1,818
99	$1,619	$3,545,610	$1,818

The above premiums do not reflect any marital or sponsored group discounts.

Premiums include Optional Benefits.

This page is intended to show how your Maximum Daily Benefits and Policy Limits increase due to the effect of your chosen Inflation Option.

This illustration is a general description of coverage and is not a contract.

JOHN HANCOCK LIFE INSURANCE COMPANY, BOSTON, MA, 02117
LONG TERM CARE INSURANCE 10/11/2000

Tax Qualified Advantage Gold - Inflation Comparison
(Select)

Spouse Name:
Age: 53
Risk Class: Standard Select
Waiting Period: 100 Days
Inflation Option: 5% Compound (Premium does not increase)
Annual Premium: $1,764

Nursing Home Care Benefit Limit - $180 a day

Home Health Care Benefit Limit - 80% Of Nursing Home Care Benefit

Age	Nursing Home Maximum Daily Benefit	Policy Limit	Premium
53	$180	$394,200	$1,764
56	$208	$455,520	$1,764
59	$240	$525,600	$1,764
62	$278	$608,820	$1,764
65	$322	$705,180	$1,764
68	$373	$816,870	$1,764
71	$433	$948,270	$1,764
74	$502	$1,099,380	$1,764
77	$581	$1,272,390	$1,764
80	$673	$1,473,870	$1,764
83	$779	$1,706,010	$1,764
86	$902	$1,975,380	$1,764
89	$1,044	$2,286,360	$1,764
92	$1,209	$2,647,710	$1,764
95	$1,399	$3,063,810	$1,764
98	$1,619	$3,545,610	$1,764

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